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PREPARATORY COMMITTEE OF THE WHOLE FOR
THE SPECIAL SESSION OF THE GENERAL
ASSEMBLY DEVOTED TO INTERNATIONAL
ECONOMIC CO-OPERATION, IN PARTICULAR TO
THE REVITALIZATION OF ECONOMIC GROWTH
AND DEVELOPMENT OF THE DEVELOPING COUNTRIES
Second session
26 February-2 March 1990
Item 1 of the provisional agenda

ADOPTION OF THE AGENDA

Provisional agenda

1. Adoption of the agenda.

2. International economic co-operation, in particular the revitalization of economic growth and development of the developing countries:

(a) Main developments in the 1980s and the challenges of the 1990s and an assessment of obstacles and impediments to growth and development;

(b) The reactivation of economic growth and development in developing countries;

(c) Strengthening and enhancing international economic co-operation and multilateralism in international economic relations.

3. Organization of the work of the special session.

4. Provisional agenda for the third session of the Preparatory Committee.

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Annotations

1. Adoption of the agenda

By decision 43/460, the General Assembly decided to convene from 23 to 27 April 1990, on the basis of the provisions set out in the annex to that decision, a special session devoted to international economic co-operation, in particular to the revitalization of economic growth and development of the developing countries. In section V of the annex to decision 43/460, provision was made for an intergovernmental preparatory committee of the whole to be established to make the necessary preparations for the special session.

In section V of the annex to that decision, provision was also made for the Preparatory Committee of the Whole to hold an organizational session in early March 1989 to elect its Bureau, a brief session in June 1989 to consider the preliminary outline of the report of the Secretary-General, and two other sessions of one week each, as and when required.

The Preparatory Committee held its organizational session from 13 to 16 March, and its first substantive session from 31 May to 2 June 1989; in accordance with General Assembly decision 43/460, it submitted a report on its work to the Assembly at its forty-fourth session (A/44/45). In its decision 44/444, the Assembly, inter alia, took note of the report of the Preparatory Committee and requested the Preparatory Committee to continue its work on the basis of General Assembly decision 43/460.

At its 6th meeting, on 2 June 1989, the Preparatory Committee decided to hold its second session from 26 February to 2 March 1990 and that the dates for its third and final session would be decided at its second session.

2. International economic co-operation, in particular the revitalization of economic growth and development of the developing countries:

(a) Main developments in the 1980s and the challenges of the 1990s and an assessment of obstacles and impediments to growth and development;

(b) The reactivation of economic growth and development in developing countries;

(c) Strengthening and enhancing international economic co-operation and multilateralism in international economic relations

In accordance with the provisions of paragraph 8 of the annex to General Assembly decision 43/460, the Preparatory Committee will have before it the comprehensive report of the Secretary-General on the state of international economic co-operation, in particular on effective ways and means of revitalizing the economic growth and development of the developing countries.

In paragraph (d) of decision 44/444, the General Assembly decided to recommend that the Preparatory Committee bear in mind, in its preparations for the special

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session of the General Assembly, the views expressed by delegations at the forty-fourth session of the Assembly.

In paragraph (e) of that decision, the General Assembly decided to recommend to the Preparatory Committee that it consider at its second session the following outline:

(a) Main developments in the 1980s and the challenges of the 1990s and an assessment of obstacles and impediments to growth and development;

(b) The reactivation of economic growth and development in developing countries;

(c) Strengthening and enhancing international economic co-operation and multilateralism in international economic relations.

In paragraph (f) of the same decision, the General Assembly decided to transmit the text of the Chairman of the Preparatory Committee, annexed to that decision, to the Preparatory Committee for consideration at its second session. (The text of the Chairman will be issued in a separate document.)

Documentation

Report of the Secretary-General on the state of international economic co-operation, in particular on effective ways and means of revitalizing the economic growth and development of the developing countries

3. Organization of the work of the special session

The Preparatory Committee will be required to make recommendations on the organization of the special session, in particular concerning the provisional agenda, organization of work and participation in the special session. The Committee may wish to hold discussions on those matters. To assist the Committee, the Secretary-General will submit a background note providing information on, inter alia, organizational arrangements for previous special sessions of the General Assembly.

4. Provisional agenda for the third session of the Preparatory Committee

The Preparatory Committee will have before it a draft provisional agenda for its third and final session. The Committee will also need to decide on the dates for its third session.

UNITED NATIONS

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30 January 1990

ORIGINAL: ENGLISH

PREPARATORY COMMITTEE OF THE WHOLE FOR THE SPECIAL SESSION OF THE GENERAL ASSEMBLY DEVOTED TO INTERNATIONAL ECONOMIC CO-OPERATION, IN PARTICULAR TO THE REVITALIZATION OF ECONOMIC GROWTH AND DEVELOPMENT OF THE DEVELOPING COUNTRIES
Second session
26 February-2 March 1990
Item 2 of the provisional agenda*

INTERNATIONAL ECONOMIC CO-OPERATION, IN PARTICULAR THE REVITALIZATION OF ECONOMIC GROWTH AND DEVELOPMENT OF THE DEVELOPING COUNTRIES

The state of international economic co-operation and effective ways and means of revitalizing the economic growth and development of developing countries

Report of the Secretary-General

SUMMARY

Global economic growth in the 1980s has been uneven and lower than in both the 1960s and the 1970s. The developing countries have borne the brunt of the decline in growth, with the developed market economies having had a seven-year period of expansion and the socialist countries of Eastern Europe having performed modestly.

The performance of the developing countries has been highly mixed. Some countries, notably in South and East Asia, have grown faster than the developed market economies, but elsewhere the rate of growth has not only fallen below that of the developed market economies, but in many cases has failed to keep pace with

* A/AC.233/4.

the increase in population. As a result, people in these regions are no better off in 1990 than they were in 1980.

The widespread nature of the economic set-backs of the 1980s underline the fact that an interwoven set of events - notably the secular decline in the prices of many commodities, high international interest rates, the debt crisis and the consequential reversal of the net transfer of financial resources to many developing countries, increased protectionism and a decline in investment - have combined to place many developing countries in a situation from which they are unable to extricate themselves. This does not negate the fact that there have been deficiencies in domestic economic management.

The qualitative dimensions of growth have also suffered. The attention given to human needs and to the development of human capital has been reduced in many countries. The number of absolutely poor has increased and social indicators have failed to maintain their previous rate of improvement. Technological weakness has prevented many developing countries from improving the utilization of their human and physical resources, adversely affecting their international competitiveness and inhibiting their integration into the world economy.

The threat to the physical environment is becoming the subject of international concern. Most of the damage to the global environment is the result of past and present patterns of production and consumption in the developed countries, but poverty in the developing countries is another cause. Remedying past mistakes and avoiding them in future will place additional demands on the world economy.

These changes have taken place against a background of increased interdependence among countries. A global dimension has been added to the activities of individuals, firms and Governments, providing them with new opportunities but also imposing additional constraints. Many Governments have responded by adjusting their domestic macro-economic policies and, in particular, by giving increased attention to micro-economic measures designed to enhance efficiency. However, solutions to many of the world's economic difficulties require strengthened international co-operation and a longer-term perspective. Recent international economic policy-making has been largely short-term in nature, having not yet adjusted to the new global realities.

The new challenges have emerged at a time when many of the old development problems remain unresolved and, in many cases, have become more acute. However, the General Assembly should be able to draw upon the present strengths in the world economy and the relaxation of political tension to reach agreements that will guide international economic co-operation in the early 1990s. A primary objective must be to ensure that per capita incomes in the developing countries increase at least as fast as in the developed countries. Particular efforts will have to be made to reverse the decline that has occurred in many countries. This will require a renewed international commitment to development, as well as a continuation of the process of economic modernization taking place in many countries. Reductions in defence expenditures should enable additional resources to be allocated to development.

In order to restore investment, international financial flows to developing countries must be increased significantly. As part of the effort to achieve this, the international community should set a target date in the early 1990s to eliminate the developing countries' debt overhang. The possibility of creating an international debt reconstruction facility for this purpose should be examined further. In addition, all developed countries should strive to meet the official development assistance (ODA) target of 0.7 per cent of GNP, of which 0.2 per cent should be provided to the least developed countries by the end of the 1990s.

The Uruguay Round of the General Agreement on Tariffs and Trade (GATT) must ensure that the needs of developing countries, particularly for greater access of their exports, including manufactures, to the markets of developed countries, are fully taken into account. Commodity markets should be strengthened and the diversification of the exports of developing countries should be supported. Intensifying trade among themselves and undertaking other forms of economic co-operation would assist the developing countries in diversifying their economic structures and opening their economies.

The human and environmental dimensions of development must receive increased attention. The reduction and eventual elimination of poverty should be a priority task; Governments should set targets for this and other social dimensions of development. Recent national and international initiatives regarding the environment should be translated into more specific understandings.

The objectives and the process of international co-operation should be broadened to take into account the new circumstances and to reflect the needs of all countries. This process will require, inter alia, a more far-reaching approach to reform of the United Nations system than has been taken in the past.

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I. STATUS AND PROSPECTS FOR DEVELOPMENT

A. The global economy in the 1980s - growth, retrogression and instability

Growth of the world economy in the 1980s has been uneven, both over time and among countries. Partially because of this patchiness, growth has been both below potential and slower than in the two previous decades: per capita income has increased by an average of only 1.2 per cent per annum in the 1980s, a little more than half the rate in the 1970s and only a third of that in the 1960s.

The slow-down has occurred in all major groups of countries, but some have been hit considerably harder than others. In the developed market economies, the first half of the decade saw a recession, but this was followed by sustained and, in recent years, accelerated growth. Since 1985, per capita income in this group of countries has increased by more than 2 per cent annually. Inflation has subsided, but unemployment in Europe has remained high by historical standards. Growth has also been accompanied in some countries by a deterioration in some of the general indicators of community well-being, such as income distribution, homelessness and drug abuse.

In addition, large external and internal imbalances have appeared among and within the developed market economies. Differences in savings and investment behaviour across countries, reinforced by differences in patterns of production and consumption within them, have been the cause of large financial flows among those countries. The majority of these financial transfers have been private commercial flows. These flows contributed to the misalignment of exchange rates that marked the first half of the 1980s. Their continuation in the second half of the decade has so far enabled the countries concerned to avoid taking action to correct their external imbalances, just as similar flows disguised and postponed the need for adjustment in many middle-income developing countries in the 1970s.

The ability of the world's economic and financial system to sustain the external imbalances among the developed market economies has been an important feature of the 1980s; it has been a major factor explaining the unprecedentedly long economic expansion experienced by those countries in the latter part of the decade. At the same time, the continuation of these imbalances has been accompanied by unusually large fluctuations in exchange rates, interest rates and asset prices, in part reflecting continued concerns regarding the sustainability of imbalances of the present magnitude over the longer term. This introduces uncertainty and instability into financial markets, thereby weakening the foundations for long-term growth and development.

The direct and indirect consequences of the imbalances among the developed market economies, as well as some of the macro-economic policies pursued by those Governments, have contributed to the difficulties of indebted developing countries. In particular, the combination of a large trade deficit and a large federal budget deficit in the United States has resulted in a redistribution of the

world's savings away from capital-scarce developing countries towards the world's richest economy. 1/

The socialist countries of Eastern Europe have shown only modest growth in the 1980s. This has been one factor prompting many of them to embark on major economic reforms, including greater involvement in the world's commercial and financial arrangements and broader participation in multilateral institutions. This will contribute to their modernization and technological advancement. When completed, their economic growth should improve considerably, enhancing their capacity to contribute to global development.

The developing countries have borne the brunt of the decline in growth during the 1980s, with the result that the income gap between the developed and the developing countries has widened as never before. Within this group, however, the situation has been highly mixed. Some developing countries, notably in Asia, have achieved steady increases in per capita incomes over the past 10 years, resulting in a substantial improvement over the decade as a whole. Importantly, the two most populous low-income countries have performed well. China has succeeded in undertaking major structural changes and in increasing its involvement in the world economy, as a result of which it has recorded high growth for the past several years. Despite some set-backs, India has also fared comparatively well in the 1980s, particularly in relation to prospects one or two decades ago. Notwithstanding the progress in these two countries, the largest single mass of the poor continues to be in Asia.

Elsewhere in the world, the process of development has been dealt a severe blow, with major set-backs for a large number of developing countries and acute suffering for hundreds of millions of individuals. Economic progress in most of these developing countries has been erratic during the 1980s, with advances often being followed by reversals, sometimes lasting a number of years. Most countries in Africa and Latin America, and some in Asia, have fallen into deep and protracted economic crisis. Large segments of the population in these countries are worse off now than they were at the beginning of the decade.

In the case of Africa, efforts to bring about socio-economic structural changes have been frustrated by such factors as the collapse in the prices of its primary commodities, mounting external indebtedness and inadequate net flows of external resources. Adverse weather conditions, resulting in severe and persistent drought and increasing desertification, have compounded the difficulties. The problems facing Latin America stem primarily from its external indebtedness and the large net external financial transfer which it has caused, although deteriorating international prices and other factors have also had a negative impact. In West Asia, the energy-exporting countries have suffered large decreases in income as a

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1/ According to the World Bank, the United States federal budget deficit absorbed about 8 per cent of world savings in 1987 (World Bank, World Development Report 1989 (Washington, D.C., 1989), p. 8).

result of the decline in the price of oil that has characterized the second half of the 1980s. Despite their difficulties, the situation in these countries is less critical since the average level of well-being is higher.

The deteriorating situation in many developing countries in the 1980s is in marked contrast to the situation in the 1970s (see the figure). In that decade, all developing regions except West Asia expanded output at broadly similar rates. Moreover, the rate of expansion was greater than in the developed market economies. In the 1980s, only South and East Asia have been able to maintain the pace of the previous decade and to continue to grow faster than the developed countries. The performance of developing countries in other regions has not only slipped, but has fallen below that of the developed market economies. Moreover, population growth, although slowing down in developing regions other than Africa, remains above 2 per cent. The gap between output per capita in rich and poor countries is thus widening, even though South and East Asia are catching up.

The dual track pattern in the developing countries is apparently becoming firmly entrenched, with no major change anticipated during the next few years if present economic trends and policies continue. This critical situation was exemplified in 1988: despite unusually rapid growth in the developed market economies, vigorous expansion of world trade and a lack of new adverse external shocks, per capita output in Africa and Latin America declined. It continued to do so in 1989. The situation in Africa is particularly disturbing; average incomes have fallen steadily for the past several years, and long-term projections are pessimistic.

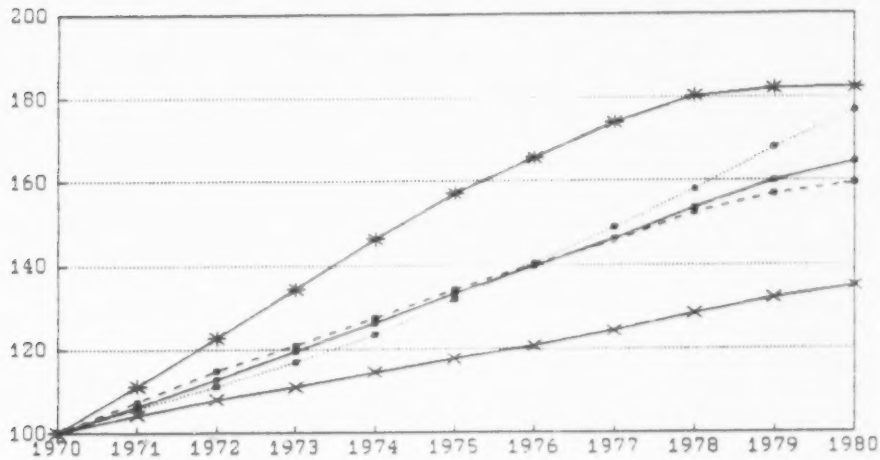
The economic difficulties of the majority of develcping countries in the 1980s have been too widespread and the afflicted countries too diverse for the retrogression to be ascribed merely to poor domestic policy or random shocks to individual countries. At least part of the reason for the set-back in these countries seems to lie in international factors. This conclusion is also suggested by the fact that some of the largest developing economies, which are relatively less vulnerable to the vagaries of the international economy, have done better than the smaller countries over the past decade.

The difficulties faced by developing countries in the 1980s have had some characteristics of a familiar historical pattern. A recession in the industrialized countries - induced in the early 1980s by anti-inflationary policy measures - reduces the demand for commodities. This demand is inelastic, so prices drop sharply, causing developing countries' export revenues to fall even when the volume of exports is increased. At the same time, recession-related unemployment in the industrial countries results in protectionist pressures. These accentuate the difficulties that debtor countries face in earning the revenues they need to service their external debts. When they fail to meet these obligations, their credits are curtailed and the net inflow of financial resources turns into a net outflow. This forces a contraction of their imports, which has a further depressive impact on the world economy.

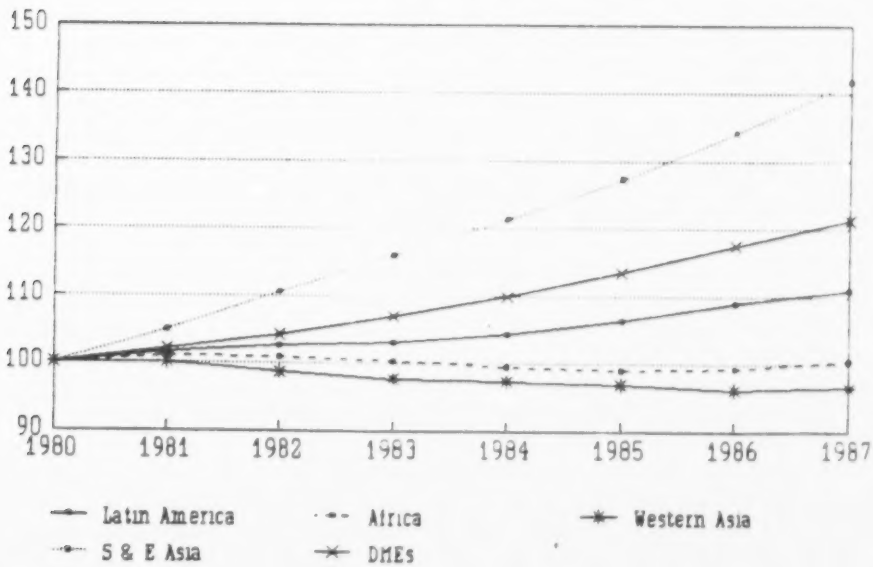
The decreases in commodity prices during the 1980s, particularly in the first half of the decade, were unusually deep and prolonged and have been particularly

Growth of output of the developed market economies and the developing regions, 1970-1980 and 1980-1987

I. 1970=100



II. 1980=100



Source: Department of International Economic and Social Affairs of the United Nations Secretariat. In order to remove year-to-year fluctuations, five-year moving averages were used.

devastating for the many countries in Africa that depend on one or two commodities for their export earnings. If commodity prices, including that of oil, had remained at their 1980 levels throughout the decade, it is likely that the debt crisis could have been averted. However, despite the revival in economic growth and in world trade in the latter part of the 1980s, the decline in commodity prices has not reversed itself in a typical cyclical manner. Although there have been partial recoveries in some instances, most commodity prices display a downward trend, resulting from structural shifts, primarily in demand but also in supply.

On the demand side, slower growth in the industrialized countries in the 1980s has been a negative factor. This has been reinforced by a reduction in the commodity-intensity of production, largely due to technological progress. Miniaturization has reduced material input per unit of output and new technologies, the use of synthetics and changing tastes have dampened the demand for some commodities. Computerization has contributed to a reduction in waste and in raw material stocks in many industries. Because of the production lags involved, supplying countries have been slow or unable to respond to these decreases in demand. Foreign exchange constraints have even encouraged producing countries to increase output because this has appeared to be the only means of increasing export earnings in the short term.

Commodity prices show no sign of recovering in the foreseeable future. This presents two problems: the short-term one of sustaining commodity-dependent countries through the immediate financial crisis and the longer-term one of weaning these economies from their commodity dependence. Given these countries' lack of resources, international co-operation will have to play a major role in addressing both of these problems.

The adverse effects of the downturn in commodity prices has been compounded and prolonged by the high rates of interest on developing countries' external debt. Interest rates, which were low or negative in real terms in the 1970s, rose to historically high nominal rates in the early 1980s and have remained at a high level in real terms throughout the decade. The high nominal interest rates of the early 1980s were due to monetary measures taken to reduce the high rate of inflation prevailing in many developed market economies at that time. While they succeeded in this immediate objective, they contributed to the developing countries' debt difficulties by multiplying the cost of carrying the large proportion of external debt which was not at fixed interest rates. Most of this type of debt was with commercial banks, but official non-concessional debt, much of which is at fixed interest rates, also became more costly over time, as the higher interest rate régime permeated borrowing and lending by Governments and international financial institutions.

In its early stages, the debt problem was seen as one of liquidity. As the long-term nature of the crisis became apparent, debtors were required to take measures to adjust their economies to the new global economic realities. Although the precise nature of the adjustment required in each country is often the subject of dispute, the general requirement is for developing countries to ensure that their pattern of production is viable at world prices, whether sold domestically or internationally. In order to undertake this re-orientation of their economies,

developing countries have to invest. However, depressed domestic conditions are not conducive to investment. Moreover, investment in developing countries is frequently import-intensive and is impeded by balance-of-payments constraints. Successful structural change requires external financing.

The response of the international community to this need has been mixed. The external response to the debt problem in Latin America has been one of short-term palliatives - the re-scheduling of existing debts, supplemented by short-term official lending and, in the early stages, some additional financing from the commercial banks. At the same time, the indebted countries agreed to undertake adjustment measures focused on reducing domestic demand and switching resources to the external sector. The inadequacies of this deflationary approach caused a shift in thinking towards growth-oriented adjustment, not only in the middle-income countries but also in low-income countries, notably in Africa, as they joined the ranks of those facing external debt problems.

Recognition of the crisis in Africa found expression in the adoption of the United Nations Programme of Action for African Economic Recovery and Development in June 1986. The Programme embodied a commitment by the African countries to re-dedicate themselves to programmes of economic development and structural reform and a commitment by the international community to support those efforts. Soon after the adoption of the Programme, it became apparent that its implementation was seriously handicapped by external financial constraints and that the economic stagnation and decline of many African countries was continuing. In response to this, creditor Governments have shown increased flexibility in their loan negotiations with African countries. In particular, agreement was reached during the Toronto Summit of the seven major industrial countries on a number of alternative concessions that donor Governments would offer in their debt negotiations with the poorest countries, most of which are in Africa. Nevertheless, African countries remain severely constrained by their external financial situation.

Despite the recognition of the need for a growth-oriented adjustment process and despite the emphasis on a country-by-country approach, many of the recommended policy measures remain as before and similar for all countries: devaluation, the liberalization of trade, the reduction of budget deficits, the elimination of price distortions, the privatization of state-owned enterprises and the adoption of measures to make their economies more attractive to foreign capital. Given the magnitude of the changes being sought and the comparatively limited period that most adjustment programmes have been in place, it is premature to generalize on their overall effectiveness.

A disturbing feature of this crisis in the debtor countries - and a reason for its persistence - has been the decline in the proportion of GDP that has been devoted to investment. There has been a decline in productive capacity and disinvestment in infrastructure and many other public sector goods, including many of those that have a direct bearing on the state of the human condition. This has not only had adverse consequences for short-term growth and welfare, but has also impeded the adjustment process and thus dampened future prospects.

The decline in investment in countries undergoing adjustment is largely attributable to the decline in the net transfer of resources that has occurred in the 1980s. In the 1970s, international bank lending grew very rapidly and there was a net transfer of resources into borrowing countries, which means an import surplus of goods and services. When this lending ceased abruptly in the early 1980s, repayments and interest obligations made for net transfers in the opposite direction and trade balances had to move into surplus. In some countries which continued to receive substantial amounts of grant aid, net transfers remained positive, but for developing countries as a whole there was a sharp swing from positive to negative net transfers. Over the period 1984-1989, this negative net transfer has amounted to about $180 billion.

The negative net transfer of financial resources is overwhelmingly accounted for by private sector flows. These net payments are partially offset by inflows of official development assistance (ODA) and limited amounts of other official flows. These have become the only source of positive net transfers to developing countries. ODA has grown more or less in pace with the world economy, but the target of 0.7 per cent of gross national product proclaimed two decades ago has not been met by donors as a group; ODA as a proportion of the GNP of the industrialized countries has stagnated at about half that level. Some small countries have long exceeded the target and set higher ones for themselves; some donors are increasing their aid programmes, but others are cutting them.

The World Bank and the International Monetary Fund (IMF) no longer provide net financial transfers to developing countries on any significant scale because repayments have caught up with new lending. In spite of the great efforts on the part of the institutions to change these trends and although they continue to be significant providers of gross flows, they are not in a position to provide resources on a scale that could revitalize growth and development and cushion such shocks as the sudden withdrawal of commercial bank credit from debt-ridden countries in the 1980s.

The international financial and trading systems have largely weathered the debt crisis and the other major shocks to which they have been subjected in the 1970s and 1980s. New institutions and improved policy mechanisms have prevented a recurrence of the world-wide depression that followed similar upheavals in the 1930s. At the same time, international financial markets have undergone a radical transformation, as revolutionary changes in communications have broken down restrictions on capital movements in industrialized and semi-industrialized countries and created a very large global financial market. This market has largely taken over the task of setting exchange rates among key currencies and has eroded the power of Governments to control capital flows. Even Governments which still try to prevent their citizens from exporting capital have become unable to do so. So-called capital flight from developing countries responds to the same market signals and incentives that make Japanese and European investors move funds to the United States and other countries where prospects are attractive.

This amounts to a major change in the functioning of the world economy, with great consequences for the conduct of national and international economic policy. These consequences have so far been only partially absorbed, and there is

considerable unease about the volatility and uncertainty of a market-based international monetary system.

Even before these recent changes, developing countries had been calling for the convening of an international conference on money and finance in the hope of securing more supportive arrangements and greater monetary and financial stability. In recent years, many observers in developed countries have also called for a reconsideration of the international monetary system, as they too have come to worry about the potential for instability in present arrangements. However, most of the developed countries have shown no interest in such a conference. The agenda has not been spelled out clearly and they argue that the international financial system is under continuous examination and modification through the deliberations in IMF and its Interim Committee.

Within the framework of IMF, groups representing both the developed and the developing countries have prepared reports identifying shortcomings in present international financial arrangements and suggesting remedial measures. 2/ Attention has focused on the balance-of-payments adjustment process, surveillance, international liquidity and exchange rate volatility. The concern regarding the balance-of-payments adjustment process is that it tends to be both asymmetrical (in that it focuses almost exclusively on deficit and not surplus countries), deflationary in nature and short-term in focus. 3/ With regard to surveillance, there is concern that the present arrangements are not applied equally to all countries, not even all deficit countries, since not all countries are subjected to the same international adjustment process. Similarly, there is concern that the supply of international liquidity is erratic, that it does not keep pace with the growth of international economic activity and that increases are not distributed equitably.

The deterioration in financial flows to developing countries in the 1980s has caused international trade to become, to an even greater extent than previously, their most important potential source of external resources. However, for many developing countries, the international trading environment has been unfavourable in the 1980s. In addition to the decline in commodity prices, protectionism has increased, notably in the form of non-tariff barriers, and there has been an increasing tendency to make trade arrangements outside the General Agreement on Tariffs and Trade (GATT) or contrary to its spirit.

2/ Respectively, the report of the Deputies of the Group of Ten, "The functioning of the international monetary system" and the report of the Deputies of the Group of Twenty-four, "The functioning and improvement of the international monetary system", both reprinted in A. Crockett and M. Goldstein, Strengthening the International Monetary System: Exchange Rates, Surveillance and Objective Indicators, IMF Occasional Paper No. 50 (Washington, D.C., February 1987).

3/ As indicated above, some progress has been made in re-orienting adjustment in developing countries towards long-term growth.

The central principles of the post-war international trading system were the unconditional application of most-favoured-nation treatment, a tariff-based system of protection, non-discrimination and transparency. These principles made negotiated tariff concessions an obligation of the entire GATT membership; they also imparted a degree of predictability, transparency and security to such concessions. At the same time, recognizing that the capacity to maintain open trading arrangements varied among countries and over time, there were escape clauses. These were, however, to be subject to international surveillance.

Three related developments have undermined these principles over the years. First, there has been a progressive shift from a tariff- and rules-based system towards one increasingly characterized by ad hoc controls relating to the quantitites, prices and sources of imports. Secondly, there have been technology-driven shifts in comparative advantage and new suppliers have emerged in the markets for many traded goods. Thirdly, views regarding the role of trade policies and trade measures in integrating developing countries into the trading system have changed.

By using new technologies to reinforce their former advantages of low labour costs and, in some instances, the availability of natural resources, some developing countries have emerged as competitive global suppliers of manufactured goods. A reluctance to adjust to these newer and more competitive sources of supply and to other shifts in comparative advantage has been one reason for demands for protectionist measures. Because tariffs are the subject of international commitments, non-tariff measures have been the easiest response to these demands and have proliferated in recent years, frequently in the form of either anti-dumping and countervailing duties, orderly marketing arrangements or voluntary export restraints.

Developing countries that have been successful in expanding their manufactured exports have often also had to face demands for graduation and reciprocity. As spelled out in the Tokyo Round, the concept of graduation is based on the idea that developing countries' ability to participate more fully in the General Agreement will improve along with their level of development. In practice, graduating developing countries often face exclusion from the Generalized System of Preferences and a variety of other actions (in such areas as export credits and World Bank loans) on the grounds that they are low-cost suppliers. This reflects a shift in the application of the concept of graduation from liberalization by developing countries to protection by developed countries and raises the question of which countries should bear the cost of such protection. More generally, the capacity to make concessions and to participate more fully in multilateral trading arrangements should be viewed in the light of the non-reciprocity principle. This defines the capacity to participate in the context of a country's overall trade, financial and development needs. For most developing countries, these needs, especially in the financial area, have increased in recent years.

In the 1960s, differences in levels of development, size of domestic market, degree of diversification of production and negotiating strength were taken into account in developing trade policy measures which would strengthen countries' capacity to participate in the trading system. Since the Tokyo Round, this

commitment has been increasingly questioned, as evident in demands for bilateral reciprocity and the review of contractual rights. Reciprocity is increasingly approached in terms of bilateral balances and linked with concessions in other, non-trade areas. All these trends represent widespread deviations from the application of the unconditional most-favoured-nation principle and are changing the balance of rights and obligations embodied in the GATT contractual framework.

Concurrently with this erosion of existing trade disciplines, and reflecting the emergence of new services and new technologies in international trade, efforts are being made to extend the GATT system to new areas. Many of the issues now being put forward for multilateral negotiation relate not to traditional trade barriers but to such issues as services, intellectual property and trade-related investments. These issues are critical to the development process because they affect international comparative advantage and competitiveness. Increased technological choice is shifting patterns of production and trade in ways that are not apparent from factor endowments. For example, the service content of goods has increased and has become an important factor in determining competitiveness, while the viability of specialization has been undermined because factors of production have become increasingly substitutable in industrial processes.

The result of these developments is that developing countries face some serious dilemmas in the present international trading environment. On the one hand, products in which they would expect to have a comparative advantage face protective measures (e.g., textiles) or low prices (commodities). On the other hand, developing countries' efforts to develop an indigeneous technological capacity have often been characterized as unfair trading practices by the developed countries. Meanwhile, industrialized countries are using their technological advantage to establish competitive positions in areas where some developing countries might be expected to possess an advantage.

Present trade negotiations aim to strengthen the GATT system, notably by broadening it to cover agricultural trade and to encompass multilateral frameworks for trade in services, in investment and in intellectual property. However, it is not yet clear how far the Uruguay Round will address some of the other issues of interest to developing countries, such as rollback and standstill, textiles and safeguards.

The negative trends in the world economy described above are likely to persist in the years ahead unless decisive remedial steps are taken promptly, both nationally and internationally. Debt dominates both the economic and political scenarios for a large number of developing countries, but lack of sufficient finance, protectionism and low commodity earnings are a major threat to the acceleration of growth and development in developing countries at large. With a continuation of present global economic trends and policies, the emerging wedge between countries with relatively healthy economic growth and those on a path of apparently continuous decline will become more firmly embedded: even under optimistic assumptions, the growth of income in Africa and Latin America will remain unacceptably low, while the number of individuals, predominantly in Asia, living in absolute poverty will remain unacceptably high. Overcoming these major deficiencies requires a re-thinking of present policies, both national and

international, and of the present arrangements for international economic co-operation.

B. The human condition and the development of human resources

In the latter part of the 1980s, world population passed 5 billion; by the end of the 1990s, it will exceed 6 billion. People are both the means and the end of economic and social development. Increases in the number of people on the planet provide resources and incentives for further economic growth, but they also make additional demands on the world's limited physical resources. The reconciliation of these seemingly contradictory consequences of population growth lies in employing human resources efficiently and effectively, and in ensuring that the results of their efforts are directed towards improving the human condition and the physical environment.

The economic slow-down in the 1980s has been accompanied by a decrease in the attention given to the human dimension of development. There have been considerable social gains in the developing countries in the 1980s (for example, life expectancy has risen by more than 3 years and average infant mortality has declined), but more substantial progress was made in each of the previous three decades. Most important, although the proportion of those considered to be living in poverty has declined, the absolute number has increased steadily: in developing countries other than China, it exceeded 1.15 billion people in 1985, compared to 950 million in 1970. 4/ This is equivalent to about 9 out of every 20 inhabitants in developing countries, more than one fifth of the world's population and more than the population of all the industrialized countries combined. Most of the poor are in Asia, though the number is rising rapidly in Latin America and Africa.

The number of illiterate and malnourished has also increased. In many countries undergoing economic adjustment, other social indicators have declined for the first time in many years. In highly indebted countries, public expenditure on education, health, housing and welfare has been reduced and social services have deteriorated.

In addition to the neglect of human needs, there is also gross underutilization of the world's human resources. The needs and potential of women have been particularly overlooked. Unemployment and under-employment have reached record levels in many developing countries, straining their economic, social and political fabric. Lack of meaningful job opportunities, reinforced by the favourable image of life in other countries that is increasingly available as a result of the expansion of the media, has prompted innumerable individuals to migrate. This has contributed to the "brain drain" from developing countries and has sometimes imposed strains on the receiving country.

4/ 1989 Report on the World Social Situation (United Nations publication, Sales No. E.89.IV.1), table 24.

The increased openness and interdependence among nations has introduced a new quest for greater efficiency within national economies, as it becomes recognized that economic growth in the new global economic environment depends heavily on international competitiveness. Competitiveness, in turn, is a function not only of capital inputs, but also of the quality of a country's human capital and its access to technology.

The 1980s have demonstrated the extent to which efficient production depends on a healthy and well-educated workforce, entrepreneurial and managerial ability, and research capacity. Efforts are being made in most countries to give greater attention to human resource development and to improve the utilization of those resources. In many instances, this has taken the form of increasing individual freedoms, politically and economically. There has been a movement away from government regulation and intervention towards greater personal initiative, as expressed through market forces. The reduction in controls has, however, contributed to greater instability and uncertainty in the economic environment, posing new challenges for policy makers.

Technological progress is assuming greater importance in determining national competitiveness and hence economic growth. Micro-electronics, for example, has reduced the importance of material inputs, while robotization has replaced labour-intensive production processes in many industries. Such technological changes have changed international comparative advantage, often to the detriment of developing countries, whose resource endowments are weighted in the opposite direction. Several developing countries with limited natural resources, but with a trained work-force capable of absorbing and utilizing - and even developing - new technologies, have fared well.

The difficulties of other developing countries have been compounded by the slow-down in technology transfer in the 1980s. Most of this transfer takes the form of commercial technology embodied in capital goods. External resource constraints have severely limited many developing countries' spending on such imports in the 1980s. Foreign direct investment, another important means of technology transfer, also fell in the first half of the 1980s, particularly to the heavily indebted countries. At a time when technology is so vital, a lack of foreign investment has added yet another dimension to the low growth trap in which the majority of developing countries find themselves.

C. The deteriorating physical environment

A growing body of scientific evidence of the present hazards and future risks of environmental degradation - in the form of pollution, desertification, deforestation, global warming and their consequences for the future of the planet - is causing increasing concern at all levels. Most of these hazards and risks cross national boundaries. Some of them - such as the destruction of the ozone layer - are themselves global in scope. Even those which may be geographically limited in their direct impact (e.g., deforestation), can have global repercussions. The need for international co-operation in this area is becoming increasingly manifest. At present rates of growth of population and production, world output will increase by

a factor of four in 40 years and increase the load on the environment by a similar factor unless radical changes take place.

Until recently, concern about environmental degradation has been concentrated in the industrialized countries. Some of the most worrisome environmental dangers, such as the level of carbon dioxide in the atmosphere or the concentration of chlorofluorocarbons in the stratospheric ozone layer, are the consequence largely of past and present production and consumption activities in those countries. These dangers, and measures to avoid them, were not heeded in the past, in part because of ignorance. This past failure to take into account the environmental costs of economic activity allowed growth to be higher than might otherwise have been the case. While present and future generations in those countries enjoy correspondingly higher living standards, the legacy of accumulated costs is distributed world-wide.

Meeting these accumulated past costs, as well as present costs, will impose a drag on future economic growth. Efforts will have to be made to ensure that those now benefiting from past ignorance contribute appropriately to resolving the difficulties that have been created. At the same time, there will have to be some re-orientation in the nature and pattern of consumption to ensure that environmental needs are met in the future.

Some environmental threats - such as desertification and deforestation - manifest themselves primarily in the developing countries, but their underlying cause is poverty rather than affluence. Particularly during the present period of declining economic fortunes, poor countries and poor people are preoccupied with immediate and over-riding problems which, unless solved, make the future appear largely irrelevant. Environmental benefits are likely to accrue if poverty, the root cause of environmental degradation in developing countries, is reduced and eventually eliminated. More generally, revitalizing economic growth and development in the developing countries is a sine qua non for maintaining the physical environment and possibly reversing the deterioration caused by earlier generations.

D. Interdependence and the state of international co-operation for growth and development

Increased and more efficient travel and telecommunications have collapsed the economic distance between countries. These social and technological developments have reduced barriers to the international flow of human, physical and financial resources. New ideas and approaches travel the globe with unusual speed. Political, economic, social and cultural interdependence among nations has increased as a result.

Business enterprises increasingly operate in a global rather than a national context. This has been facilitated by more liberal policies on the part of host Governments and a greater understanding by transnational corporations of host countries' expectations of them. Among the developed market economies, the distinction between predominantly home and host countries is being eroded as the

former dominant exporters of foreign direct investment become major recipients of such capital. In the developing countries, there is greater awareness of the role of foreign capital in the development process and a lessening of the tension that often characterized relationships between these countries and transnational corporations in the past.

Greater interdependence among nations has accelerated the transmission of both positive growth impulses and negative shocks. On the one hand, interdependence imposes an additional constraint on national Governments. On the other hand, the changing nature of the world has provided Governments with new opportunities and options. As a result, the nature and direction of economic policy has changed or is under scrutiny in virtually all countries. Economic problems, even at the national level, now have to be seen in a global perspective to a greater extent than before. The distinction between national and international economic policies is fading.

The consensus on macro-economic management which prevailed among developed countries in the first decades after the Second World War has been abandoned. None of these countries wish to raise the fiscal take, but their monetary policies are constrained by the openness of international markets. If they lower interest rates in order to stimulate domestic investment and output, they run the risk of a capital outflow. Devaluation of the currency as a means of regaining competitiveness after excessive inflation is no longer regarded as a respectable policy option, in view of the loss of confidence that it generates among foreign investors.

Many of the consequences of global interdependence have not yet been fully understood. The changes in the world economy have been so rapid that attention has been focused on short-term adjustments to them; long-term issues have often been relegated to the second order of priority in the 1980s. In particular, the implications of interdependence for collective decision-making are not reflected in the institutions that govern them.

Macro-economic co-operation among the leading industrial countries has been a mixed success in terms of its own narrow objectives. An initial priority of the recent phase of co-operation was to reduce the exchange rate of the dollar, with a view to correcting the United States current account deficit. Almost five years later, these objectives have been only partially achieved. In the mean time, attention has shifted, first towards introducing greater stability in the exchange rates among the major currencies and, more recently, to avoiding any resurgence of inflation in the developed market economies.

The moves towards improved policy co-ordination marked the advent of one innovation in global economic management. Historically, the burden of adjustment to an external imbalance has fallen on the deficit country, which has usually been required to adopt restrictive measures to reduce domestic demand and thereby encourage a shift in resources from the import to the export sector. In the case of the imbalances among the developed market economies, there was a fear that such a unilateral reduction in demand by the United States might provoke a global slow-down. The agreement to reduce the value of the dollar progressively was

therefore accompanied by an understanding that the major surplus countries would take measures to stimulate domestic demand and thereby reduce their surpluses.

Industrialized countries frequently fail to consider the consequences of their policies for the developing countries. For example, the debt problem is universally recognized as a major impediment to development; it is also known that interest rates in the developed countries directly affect the debt burden of developing countries. Nevertheless, decisions on these interest rates, while frequently co-ordinated among the Group of Seven, are taken primarily on the basis of the domestic situation in those countries, with some attention also being given to the consequences for their exchange rates. Such an approach ignores the negative impact of an increase in interest rates on an indebted developing country's foreign exchange position; this could readily outweigh any benefit it may receive from development assistance or other inflows. Similarly, co-ordinated policy measures have so far failed both to reduce the massive absorption of world savings by the largest economy and to counter the substantial rise in real interest rates in the 1980s. The former has contributed to a distortion in global capital flows, while the latter has accentuated the developing countries' debt problems.

In brief, the present system of macro-economic policy co-ordination, essentially based on the Group of Seven meetings, does not incorporate the development concerns of other groups of countries. One reason for this may be that, until recently, it has been the implicit assumption that growth in the major industrial countries would itself provide a sufficient direct and positive stimulus to growth in the developing countries. International support for development has been viewed as a separate issue.

International co-operation for development has evolved greatly since its inception. When it emerged in the 1950s and 1960s, it was essentially seen as a matter of providing financial and technical assistance from the developed to the developing countries. In the 1970s, while much continued as before, deliberations about development co-operation in international forums assumed an adversary dimension and focused on the reform of the international economic environment. In the 1980s, North-South relations were affected by several developments, including recession in the North in the early part of the decade, the increasing diversity of experience in developing countries, the crisis management of the debt problem and the broad changes in the world economy. International co-operation for development assumed a secondary role.

Development depends on both national effort and the international environment. International responsibilities include the expansion and stabilization of the world economy as a whole; this is essentially the task on the developed market economies, which account for 70 per cent of world trade and income. However, these countries' international responsibilities also include the support, through trade and financial and technical assistance, of the development efforts of countries with 75 per cent of the world population. The two international responsibilities are not unrelated, as events in the world economy in the 1980s have shown.

II. THE REVITALIZATION OF GROWTH AND DEVELOPMENT

The world economy at the end of the 1980s presents a picture of sharp contrasts - of progress and decline, threats and opportunities, hopes and frustrations. The numerous elements of strength in the world economy should make it easier to deal with the elements of weakness, in particular to break the vicious circle of stagnation in which many developing countries have been caught. The relaxation in world political tensions should also facilitate international economic co-operation and make it possible to tackle the global environmental problems which loom large over the future of the entire world.

In the course of the 1980s, the functioning of the world economy has changed in important regards, above all as a result of greatly intensified communications and the integration of financial markets. Governments have come to approach economic policy in a new manner, with greater attention to micro-economic issues and to the fundamental role of education, incentives and political freedom in determining innovation and productivity.

It is against the background of these new realities that the special session of the General Assembly offers an opportunity to assert the general agreement of the States Members of the United Nations about the challenges of economic and social co-operation facing the world community in the years to come and to formulate broad guidelines for the sharing of responsibilities in meeting these challenges. The objective should be to reach an understanding which would facilitate the forthcoming consideration of more specific issues, such as the formulation of a new international development strategy, the finalization of the Uruguay Round, the adoption of the code of conduct on transnational corporations, the preparation of a new programme of action for least developed countries, the eighth session of the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Conference on Environment and Development in 1992.

A. Revitalizing development

Within the overall context of sustained global economic growth, a primary objective should be to reduce the economic differences among countries and peoples, in particular the widening discrepancies in physical well-being among the world's population. Remedying the deterioration in the relative - and, in some cases, absolute - economic position of many countries must be a specific policy objective and the subject of focused national and international measures. The implication of this objective is that per capita income in developing countries should increase at least as fast as in the developed countries or by, say, 2.5 per cent a year.

Special efforts are necessary to put the development objective more plainly in focus than the adjustment theme, which has now long overshadowed it. Major adjustments are under way in most developing countries and the need for continued efforts to improve economic policy-making is widely recognized in these countries themselves. The fact that military expenditure exceeds spending for education and health in many countries is one of the contradictions that needs to be addressed squarely. These efforts at reform should be continued and vigorously supported by

the international community, with special care being taken to protect vulnerable economies and disadvantaged segments of the population. The international adjustment process should be such that its costs are distributed more equitably between rich and poor countries. Other necessary global economic adjustments, such as the need for the developed market economies to reduce their internal and external imbalances to more sustainable levels, should also be seen in the context of the need to revitalize growth and development in the developing countries.

The situation in those economies which are presently declining is of great concern. Within this group, particular attention has to be given to the commodity-dependent economies of Africa and to other least developed countries. Efforts have to focus on the strengthening and diversification of these economies. Their problems are compounded by structural rigidities, debt-servicing difficulties and the inadequacy of development finance.

For those developing countries where the slow-down has been most severe, a revival of investment is indispensable if the medium-term rate of growth is to return to an acceptable level. In order to encourage investment, further action should be taken to reduce real interest rates and enhance their stability. This would improve the viability of the large investments that have to made in many areas, notably in infrastructure, to compensate for the set-backs of the 1980s. The international community should come to an early understanding on the capital flows required to achieve the rate of growth of per capita incomes referred to above. In addition to a quantitative increase in investment, recent experience suggests the need for a longer-term approach than is the norm in ongoing adjustment programmes; phased long-term plans for physical and social infrastructure and institution-building should be developed on a country-by-country basis.

The bulk of the resources needed for development purposes will continue to be mobilized from domestic sources within individual countries. Despite falling per capita incomes in most developing countries, the total domestic savings rate has not declined in the 1980s. Additional efforts by developing countries have allowed the relationship between national income and total domestic savings to remain virtually unchanged in a period of increasing economic difficulties. In other countries, however, there has been a tendency for the total domestic savings rate (public and private) to fall in the 1980s, limiting the funds available for development, either domestically or abroad.

The further internationalization of capital markets will mean that the developed countries and some developing countries will be able to draw upon, and contribute to, the global supplies of finance. However, this will not increase the total availability of savings. A concerted effort will have to be made to ensure that additional resources are diverted from public and private consumption by the present generation to investment for future generations, just as previous generations have bequeathed a wealth of economic infrastructure to the world's present inhabitants.

Although small in relation to domestically mobilized resources, international financial flows to developing countries have an important catalytic role in the development process and will have to be restored. The present outflows of

financial resources from developing countries must be reversed. In addition to providing increased resources for investment, international finance increases the availability of foreign exchange; this is vital to those economies that are heavily dependent on foreign goods and services for development activities. Developing countries need continuity, predictability and assuredness in these financial flows to ensure steady and sustained growth.

External debt payments are the single most important component of the present financial outflow from developing countries and the overwhelming obstacle to growth and development in an increasing number of countries. As the President of the United States declared to the General Assembly in September 1989, "too many developing countries struggle today under a burden of debt that makes growth all but impossible". A just and equitable solution of the debt problem is a pre-condition for revived growth and development in a large part of the developing world.

Present estimates indicate that, despite dramatic improvements in the trade balance of developing countries, the debt overhang is still of the order of 40-50 per cent, while prevailing discounts on developing country debt in secondary markets currently average well above 50 per cent. This highlights the unprecedented scope for progress, and recent proposals open new paths for debt and debt-service reduction and for the reorganization of the external liabilities of countries facing insurmountable debt problems. The international community should seize the opportunity to set a target date in the early 1990s for the elimination of the debt overhang. This will be a major undertaking, requiring great efforts on all sides. Additional political will, invigorated leadership and additional resources will be needed to bring about early debt reduction and reorganization on a scale adequate to rejuvenate investment and revive growth in the affected countries.

The nature of the solution to the debt problem and of the accompanying structural adjustment in indebted countries remain highly contentious issues. Fundamental disagreements about matters of principle have served to prolong the crisis and inhibit the adjustment process. One of the key disagreements has been whether the commercial debt of the middle-income countries should be tackled on a comprehensive or a country-by-country basis. However, agreement on a common framework does not preclude the case-by-case consideration of each country, as demonstrated by the practices already adopted to deal with official debt. The need is for a corresponding mechanism to enable commercial debt to be handled in a similar fashion.

In order to ensure equitable treatment of all debtors and creditors and to complete the process more speedily than present arrangements allow, the possibility of an internationally financed debt reconstruction facility should be re-examined. In addition to organizing the reduction and restructuring of existing debts, the major function of the facility would be to act as guarantor of the restructured credit. In its capacity as guarantor rather than creditor, the facility's need for contributions would be small in relation to the total amount of debt reduction and restructuring undertaken; one estimate suggests that, because the capital required would be on a callable basis, even the largest contributor would not be required to

contribute more than $100 million over five years to a facility that would bring about debt reduction of about $125 billion. 5/

The reorganization of commercial bank debt will not have much impact on the debt-servicing burden of those middle- and lower-income countries whose foreign creditors have been largely official agencies. In such cases, the Governments of creditor countries and the multilateral financial institutions should take urgent steps to facilitate debt servicing. Creditor Governments should be more forthcoming in the reduction of Paris Club debt, allowing larger write-offs of debt-service and larger reductions in interest rates for lower-income countries than under the current options. These options should also be considered for the middle-income developing countries.

Institutional innovation and tax and regulatory changes in the industrial countries will also be necessary to facilitate the reduction in debt and debt-servicing required. The necessary changes in legislation and other actions should be set in motion without delay.

The resumption of private capital flows, including private direct investment, could make an important contribution to the revival of long-term growth and development in many developing countries. In many developing countries, a rejuvenation of private capital flows requires the re-establishment of international creditworthiness. This is as likely to be the result as the cause of accelerated economic growth. Promoting such flows therefore requires a judicious mix of measures to improve the domestic investment climate, together with infusions of funds from other sources. Such actions should enable these countries to extricate themselves from their low-growth trap and thereby regain their attractiveness to private investors, both domestic and foreign. In the medium term, only the resumption of growth will sustain an increase in the inflow of private finance and direct investment, but the process would be facilitated by an international régime for foreign investment.

Because of the pall hanging over private flows to many developing countries, official development financing will once again have to assume the central function envisaged for it in earlier years, particularly in the countries that have suffered the greatest economic set-backs in the 1980s. A major contribution to developing countries' resource needs would be forthcoming if all countries were able to achieve the ODA target by the mid-1990s. Enhanced efforts to meet such a target, especially by the major industrial countries, should be given high priority. For countries where ODA is currently a third to a half the target level, this could be achieved by channelling 3 per cent of the annual increment in GDP into ODA over a period of five years. This should be regarded as an international commitment that should not be subordinated to domestic budgetary considerations.

5/ World Institute of Development Economics Research (WIDER), Debt Reduction, WIDER Study Group Series, No. 3 (Helsinki, May 1989).

Development assistance should be increasingly channelled to the low-income countries. Individual donor countries should increase their ODA to the least developed countries in compliance with the Substantial New Programme of Action for the 1980s for the Least Developed Countries. 6/ The possibility of recovery from the acute economic set-backs in many of these countries in the 1980s would be enhanced if all donor countries doubled their present ODA to them in the next five years and provided 0.2 per cent of their GNP as ODA to these countries by the end of the 1990s.

A larger proportion of financial flows to developing countries should be channelled through multilateral institutions. The terms and conditions of these financial flows should be eased to allow more time for domestic macro-economic adjustment and should show more sensitivity to social and political realities in the developing world. Facilities for meeting counter-cyclical needs should be enlarged and strengthened and their access improved so as to ensure more rapid and wider use.

The modernization of the economies of Eastern Europe will require considerable financial and technical assistance. In the short term, this will impose an additional demand on official flows from the developed market economies. In the medium and long term, international support to this process will, in all likelihood, shift towards private direct investment and commercial trading arrangements. At the same time, the modernization process in these countries will enable them to enhance their contribution to the development of the developing countries.

In the area of international trade, success in the Uruguay Round will go some way towards restoring the credibility of the trading system, but the revitalization of growth and development in the developing countries will require further measures. The immediate objective must be to prevent any further deterioration in the trading system and to arrest the slide towards bilateralism, ad hoc protectionism and the erosion of multilaterally agreed norms. The unconditional application of most-favoured nation treatment, non-discrimination, transparency and predictability must remain corner-stones of the system. More specifically, commitments on standstill and rollback should be honoured and multilaterally agreed rules (for example, the review and modification of national legislation in such areas as anti-dumping, countervailing duty and restrictive business practices) must be respected.

The liberalization of present managed trade arrangements and the return to a tariff-based system will require a concerted effort. Eliminating quantitative measures may require raising some tariffs in some countries, but the removal of existing restrictions that are not in conformity with GATT should not be the subject of quid pro quos. The priorities include a progressive liberalization of

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6/ Data on the flow of ODA to the least developed countries by donor country in 1988 are contained in document A/44/324/Add.5.

trade in agricultural commodities and the incorporation of textiles and clothing into the framework of GATT. Tariff negotiations should aim at redressing the situation in which only a few countries make concessions on a substantial proportion of the items in their customs tariffs. Developing countries should be given credit for trade liberalization measures they are adopting as part of their structural adjustment efforts.

The commitment to the principle of differential and more favourable treatment of developing countries should be fully honoured and effective operational arrangements for its implementation should be put in place. Improvements in the Generalized System of Preferences on a non-reciprocal and non-discriminatory basis should be part of a time-bound programme. Similar schemes of more limited geographical scope, such as the Lomé Convention and the Caribbean Basin Initiative, should also be modified in order to enhance their impact.

The revised global trading rules should continue to recognize that comparative advantage is a dynamic concept and that countries seeking to integrate themselves more fully into a revitalized international trading system will require time to liberalize their trading structures. In particular, developing countries should not be called upon to open their domestic markets at a time when their economies are particularly vulnerable. As these countries develop and their trade situation improves, they should increasingly and voluntarily assume the rights and obligations of the trading system.

The multilateral rules relating to trade should explicitly provide for measures designed to promote service industries and exports in the developing countries. Advances in and the diffusion of technology, combined with new producer services, offer countries the possibility of accelerating their development. Trade-related investment measures and trade-related intellectual property rights should be such as to encourage technical progress in developing countries. Improved transfer of technology - in which transnational corporations often play a decisive role - should be a major goal of the international community and special attention should be paid to the removal of barriers to access to technology.

Beyond the Uruguay Round, care will need to be taken to counter tendencies weakening the global system and to ensure that trade expansion within regional, sub-regional and similar agreements also enhances trading opportunities for third parties, particularly developing countries. Participants in such arrangements should ensure that they are trade-creating and not trade-diverting and should make special provisions to ensure that the interests of developing countries are not damaged.

Bearing in mind the new economic orientation of the socialist countries, trade between these countries and the rest of the world can be expected to expand substantially. It will be in the mutual interest to have such trade gradually phased into the present régime on a non-discriminatory basis.

Developing countries should intensify their mutual economic relations in order to exploit their complementarities and to facilitate their integration into the emerging global economy. Global trading arrangements among the developing

countries (such as the Global System of Trade Preferences among developing countries), regional and sub-regional trading blocs and economic co-operation among developing countries in other areas (including production, investment, technology transfer, marketing, transport and communications) should be expanded vigorously. International support for such efforts should be strengthened, with the regional commissions and other entities of the United Nations system playing an active role. Developing countries in a position to do so should increase their economic and technical co-operation with less developed countries.

The strengthening of the commodity earnings of developing countries should continue to be a major objective of international effort. Instability in these earnings not only impedes development in the exporting countries but also makes it difficult for them to maintain any trading policies, including measures to liberalize imports, for any extended period of time. Nevertheless, in the short and the medium term, many developing countries will have to continue to depend on primary commodities for the bulk of their export earnings. These same export earnings will be their main source of finance to achieve the diversification of their economies. In the absence of more stable and predictable conditions in commodity markets, the developing countries' needs for temporary financial assistance may increase in the future. This suggests the need for an enhancement in present arrangements, such as the IMF Compensatory and Contingency Financing Facility. In addition, increased medium- and long-term financial and technical assistance will be required to enable commodity-dependent countries to diversify their economies. The Integrated Programme for Commodities should play a role in facilitating this transition.

B. Promoting human resource development

The increasing awareness of the need for a more human orientation in the development process must be translated into global action in the 1990s. Abolition of poverty and the development of human resources should be a centre-piece of development efforts.

The increase in the number of people living in absolute or extreme poverty in the 1980s stands as an indictment of policy-makers everywhere. Poverty is so pervasive and its consequences so dire that its reduction and eventual elimination should be made a priority task. Specific measures should be adopted to ensure that the fruits of progress are utilized to this end. Both the international community and national Governments should set appropriate goals for the 1990s, for example reducing by half the number of people living in extreme poverty and eliminating its worst manifestations for the remainder by the year 2000.

With regard to the consequences of poverty, the elimination of hunger and malnutrition should be targets in their own right. Improved education, health and shelter and an increase in meaningful job opportunities will contribute directly to reducing poverty and its consequences. Every effort must be made to reverse the deterioration in these areas that has occurred in many developing countries in the 1980s. As well as being desirable goals in themselves, education, health and shelter are all essential to a productive work-force and hence to economic growth.

Particular attention must be devoted to creating productive employment opportunities for the vast numbers of unemployed and under-employed in the developing countries. This will be both a cause and an effect of the revitalization of growth in those countries.

National Governments should set targets for human and social objectives in the light of the different circumstances in individual countries. In all cases, however, attainment of these targets will require the allocation of a larger proportion of resources than has hitherto been the case. Both national development agencies and the international community should set targets for the proportion of expenditure to be allocated to the social sectors, in particular to promote the development of human resources. The reduction in international political tension, including the resolution of a number of regional conflicts in the developing world, should allow Governments to re-allocate defence expenditures towards meeting this goal.

Experience indicates that the reduction and the eventual elimination of poverty will be accompanied by progress in other areas. Most important, an improvement in economic well-being among the world's most disadvantaged individuals should decrease the rate of growth of population, reducing the quantitative pressure on the world's scarce resources.

C. Development and environment

The need to maintain the physical environment in the world has become a common global concern and should become a unifying force. Present environmental deterioration will have to be halted and previous damage reversed. Intervention by Governments, both individually and collectively, will be necessary to ensure that the environment is used in a manner that is optimal from the long-term perspective of mankind, not simply in response to the demands of the present generation.

The avoidance of further environmental degradation, above all other tasks, will require that all countries act together in charting the path for future growth and development. Increasing awareness of the need for a global response to the environmental threat to the future of the planet has already prompted international agreement, on both general issues and some special concerns. Publication of the Brundtland report was followed by the adoption of the Environmental Perspective to the Year 2000 and Beyond by the General Assembly in 1987, while in 1989 agreement was reached on measures to protect the ozone layer (the Montreal Protocol). At its forty-fourth session, the General Assembly reached agreement on arrangements for the convening of a world conference on environment and development, to be held in 1992. This will provide the opportunity for detailed discussions of specific aspects of environmental management.

In the mean time, the special session should re-assert the general principles that the General Assembly recognized in its resolution 42/186 on the Environmental Perspective to the Year 2000 and Beyond". In particular, the General Assembly noted that "accelerated and balanced world development and lasting improvements in the global environment require improved world economic conditions, especially for

the developing countries" and that "elimination [of mass poverty is] essential for sustained environmental improvements". An improved world economic environment, including revitalized growth and development in the developing countries, will be a major contribution to the long-term improvement and maintenance of the physical environment: increased growth and the more efficient use of resources should generate the additional resources required to pay for environmental protection without imposing an undue sacrifice in terms of forgoing the satisfaction of present demands. At the same time, there will need to be a change in the nature of economic growth to reflect the fact that the environment will not provide an unlimited supply of raw materials, nor serve as a bottomless repository for the world's waste.

There will be a need to reach an understanding on the sharing of the costs of environmental protection. Meeting global threats to the environment will involve countries with greatly differing ability to pay for pollution control, energy conservation and the development of alternative technologies. Industrialized countries whose past growth has contributed significantly to present-day environmental degradation should take measures to ensure that their future growth does not have the same effects. The development of new technologies that are less harmful to the environment will be crucial to this effort. An essential part of the international response to the environmental challenge will lie in ensuring that such new technologies are made available to other countries on terms and conditions that are conducive to their universal use.

D. Strengthening international economic co-operation

The internationalization of many economic activities, the effect of modern transport and communications, the global consequences of actions regarding the planet's resources and the removal of many economic and political boundaries call for major changes in the nature and scope of international co-operation. This unification of the planet has coincided with an increase in the complexity of the interrelations between its component parts. These trends towards increased interdependence and complexity underline the fact that growth and development must be a collective endeavour in which international economic co-operation is essential.

Recent progress towards international economic policy co-ordination should be consolidated and broadened to take account of the concerns of all countries. Such co-ordination should be directed towards global economic growth and social development, rather than being focused on the limited objectives of a small group of nations. The objective of such enhanced international economic co-operation should be to achieve the highest possible rate of socially, politically and environmentally sustainable global growth, an equitable distribution of the fruits of progress and maintenance of the physical environment. Another objective should be to increase the stability of the world economy, particularly as it affects vulnerable countries and segments of the population. All countries should participate in this process on an equitable basis. In particular, economies that exert a major influence on economic, social and environmental conditions in other countries should take the external consequences of their actions into account.

Without such a strengthening of international economic co-operation within a global approach, the reform efforts of individual countries will come to little.

The efforts to correct the major imbalances among the industrialized countries should be enhanced in order to bring about a more sustainable pattern of financial flows and lower interest rates. These countries should also continue their policies for accelerated non-inflationary growth, not only to reduce their own unemployment but also to promote growth world-wide. To achieve this objective of high levels of growth and development, multilateral surveillance should be strengthened and broadened.

The international community will have to consider undertaking a re-examination of the international monetary and financial system to decide whether it is appropriate to the global economic conditions that will prevail in the 1990s. Such a review should endeavour to resolve both the outstanding issues raised by the experiences of the 1980s and newly arising issues, such as the accommodation of the socialist countries in the system and the changes arising from monetary integration in Western Europe. The ongoing changes in the structure of the world economy are of momentous magnitude and a commensurate response will be required.

E. The United Nations system in an interdependent world

The agenda for international co-operation suggested above will require effective multilateral mechanisms and institutions. An extensive network of multilateral organizations to service the needs of the international community in the economic arena already exists. Governments meet in numerous forums to consider and take actions regarding different, but closely related, aspects of the global economy. However, the United Nations is the only forum in which the community of nations can address all issues in a comprehensive manner, taking into account also the interrelationships between development, peace, security and disarmament. Improved relations and increased interdependence among nations suggest that the United Nations system will be called upon to play an even greater role in international economic and social relations in the future.

As set forth in the Charter, one of the basic purposes of the United Nations is "to achieve international co-operation in solving international problems of an economic, social, cultural or humanitarian character". Efforts to fulfil this mandate in the light of the constant changes in the world economy and the needs of Governments have resulted in an almost continuous expansion of the United Nations system in the economic and social areas. This has compounded the difficulties of co-ordination and coherence, especially given the pluralistic nature of the system.

A continuing concern has been to ensure the relevance, efficiency and effectiveness of the system. Evaluations by experts or groups of experts range from the capacity study of 1969 to the report of the Group of High-Level Intergovernmental Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations. Various intergovernmental forums have also undertaken examinations of existing structures and arrangements, the most recent being the Special Commission of the Economic and Social Council on the

In-Depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields. While recognizing the achievements of the United Nations system, all of these exercises have pointed to the need for continuing reform. They have identified a number of issues to be addressed, including the structure and functioning of intergovernmental machinery, the organization and provision of secretariat support and the co-ordination of the entities of the United Nations system. With regard to the intergovernmental machinery, an important element is the revitalization of the Economic and Social Council so as to permit it to carry out its responsibilities under the Charter of the United Nations. As indicated in the various reports of the Secretary-General, the restructuring of the Secretariat in the economic and social fields is an ongoing process and one that must take into account the overall policy guidelines established by Member States, including the results of the current special session. With regard to the co-ordination of activities within the United Nations system at the inter-secretariat level, the Administrative Committee on Co-ordination has primary responsibility and should continue to adjust its work in order to respond to the changing needs of Governments.

The new demands being placed on the United Nations system and the emergence of new multi-dimensional, multi-sectoral transborder issues underline the need to continue to adjust and adapt institutions and practices so as to ensure the capacity of the United Nations system to respond to the needs of Member States. To be successful, this will require a more comprehensive and far-reaching approach to reform than has been the practice in the recent past.

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ENGLISH ONLY

PREPARATORY COMMITTEE OF THE WHOLE FOR THE SPECIAL SESSION OF THE GENERAL ASSEMBLY DEVOTED TO INTERNATIONAL ECONOMIC CO-OPERATION, IN PARTICULAR TO THE REVITALIZATION OF ECONOMIC GROWTH AND DEVELOPMENT OF THE DEVELOPING COUNTRIES
Second session
26 February-2 March 1990
Item 2 of the provisional agenda*

INTERNATIONAL ECONOMIC CO-OPERATION, IN PARTICULAR THE REVITALIZATION OF ECONOMIC GROWTH AND DEVELOPMENT OF THE DEVELOPING COUNTRIES

The state of international economic co-operation and effective ways and means of revitalizing the economic growth and development of developing countries

Report of the Secretary-General

Corrigendum

Page 7, penultimate paragraph

For the third sentence substitute

The supply of most primary commodities is inelastic, so prices drop sharply. Consequently, for exporters as a group, export revenues fall substantially. Even for those individual countries that try to protect themselves by increasing the volume of their exports of primary commodities, export revenues from this source are likely to fall.

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* A/AC.233/4.

90-04252 1278c (E)

In section V of the annex to that decision, provision was also made for the Preparatory Committee of the Whole to hold an organizational session in early March 1989 to elect its Bureau, a brief session in June 1989 to consider the preliminary outline of the report of the Secretary-General, and two other sessions of one week each, as and when required.

The Preparatory Committee held its organizational session from 13 to 16 March and its first substantive session from 31 May to 2 June 1989; in accordance with General Assembly decision 43/460, it submitted a report on its work to the Assembly at its forty-fourth session (A/44/45). In its decision 44/444, the Assembly, inter alia, took note of the report of the Preparatory Committee and requested it to continue its work on the basis of General Assembly decision 43/460.

The Preparatory Committee held its second session from 26 February to 2 March 1990. In a decision taken at its 9th meeting, on 2 March 1990, the Preparatory Committee decided to hold its third session from 16 to 20 April 1990.

In the same decision, the Preparatory Committee approved the provisional agenda for its third session.

2. International economic co-operation, in particular the revitalization of economic growth and development of the developing countries

In accordance with the provisions of paragraph 8 of the annex to General Assembly decision 43/460, the Preparatory Committee will have before it the comprehensive report of the Secretary-General on the state of international economic co-operation, in particular on effective ways and means of revitalizing the economic growth and development of the developing countries.

In paragraph (d) of decision 44/444, the General Assembly decided to recommend that the Preparatory Committee bear in mind, in its preparations for the special session of the General Assembly, the views expressed by delegations at the forty-fourth session of the Assembly.

At the second session of the Preparatory Committee, the representative of Bolivia, on behalf of the States Members of the United Nations that are members of the Group of 77, submitted a proposal entitled "Draft declaration on the special session of the General Assembly devoted to international economic co-operation, in particular to the revitalization of economic growth and development of the developing countries" (A/AC.233/L.3) and the representative of Canada submitted a draft proposal entitled "Elements for a declaration of the special session of the General Assembly devoted to international economic co-operation, in particular to revitalization of economic growth and development of the developing countries" (A/AC.233/L.6). These proposals will be before the Preparatory Committee at its third session.

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PREPARATORY COMMITTEE OF THE WHOLE FOR
THE SPECIAL SESSION OF THE GENERAL
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ECONOMIC CO-OPERATION, IN PARTICULAR
TO THE REVITALIZATION OF ECONOMIC
GROWTH AND DEVELOPMENT OF THE
DEVELOPING COUNTRIES
Third session
16-20 April 1990
Item 1 of the provisional agenda

ADOPTION OF THE AGENDA

Provisional agenda

1. Adoption of the agenda.

2. International economic co-operation, in particular the revitalization of economic growth and development of the developing countries.

3. Adoption of the report of the Preparatory Committee for submission to the special session.

Annotations

1. Adoption of the agenda

By decision 43/460, the General Assembly decided to convene from 23 to 27 April 1990, on the basis of the provisions set out in the annex to that decision, a special session devoted to international economic co-operation, in particular to the revitalization of economic growth and development of the developing countries. In section V of the annex to decision 43/460, provision was made for an intergovernmental preparatory committee of the whole to be established to make the necessary preparations for the special session.

Documentation

Report of the Secretary-General on the state of international economic co-operation, in particular on effective ways and means of revitalizing the economic growth and development of the developing countries (A/AC.233/5 and Corr.1 (English only))

Proposal submitted by the representative of Bolivia, on behalf of the States Members of the United Nations that are members of the Group of 77, entitled "Draft declaration on the special session of the General Assembly devoted to international economic co-operation, in particular to the revitalization of economic growth and development of the developing countries" (A/AC.233/L.3)

Draft proposal submitted by the representative of Canada entitled "Elements for a declaration of the special session of the General Assembly devoted to international econoic co-operation, in particular to revitalization of economic growth and development of the developing countries" (A/AC.233/L.6)

3. Adoption of the report of the Preparatory Committee for submission to the special session

The Preparatory Committee will have before it for adoption a draft report on its second and third sessions for submission to the special session of the General Assembly devoted to international economic co-operation, in particular to the revitalization of economic growth and development of the developing countries.